

How is My Tax Rate Calculated?



www.michigan.gov/uia/webcasts

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This presentation will provide a basic overview of Michigan Unemployment Insurance (UI) tax rates. The tax rate schedules are found in Section 19 of the MES Act. You can also view webcasts for the tax rate calculation on the UIA website at www.michigan.gov/uia.



Michigan's Unemployment System

Michigan has an experience-rated tax system that uses an employer's:

- Past unemployment benefit claims
- Payroll Size
- Years of Experience

To determine an employer's annual tax rate.

Federal law mandates that the 'experience' of all employers be measured over the same period of time by uniform methods applicable to all employers.



Michigan's Unemployment System

Factors that will cause the tax rate to increase:

- Benefits paid
- Unpaid/underpaid taxes, and
- Increasing payroll



Of course, the reverse of these factors will cause the rate to decrease.

Tax Rate Components

Employer Tax rates are calculated by using the following three components:

- Chargeable Benefits Component (CBC)
- Account Building Component (ABC)
- Non-Chargeable Benefits Component (NBC)

$$\text{CBC} + \text{ABC} + \text{NBC} = \text{Tax Rate}$$

Each component is calculated separately and added together to compute the tax rate.

Experience Components

- The Chargeable Benefits Component (CBC) and the Account Building Component (ABC) are affected by the employer's payroll, the unemployment benefit charges to their account, and the tax payments received. Since these components reflect each company's own **experience**, they are known as the experience components.

A Michigan employer's tax rate more closely reflects the employer's own actual unemployment experience.

Chargeable Benefits Component

- This component takes into consideration the amount of unemployment benefits charged to an employer's account over a 48-month (4-year) period, ending the previous June 30.



$$CBC = \frac{48 \text{ months of benefits paid}}{48 \text{ months of taxable payroll}}$$

The result is rounded to the next higher 0.1%

The CBC is the only component that deals with the amount of benefits charged to an employer's account.

The formula uses: The accumulated 48-month amount of benefit charges divided by the taxable payroll for the same 48-month period. For second and third year employers who do not have 48-months of experience, the total months liable through the most recent ended June 30th is used for this calculation. The maximum CBC set by Michigan law is 6.3%, even though it may compute to a higher percentage.

In the past a 60-month period was used. Employers who became liable prior to this year, will continue to use the 60-month period.

Chargeable Benefits Component

- Rounding:

$$.0601 = .0601 = .0610 = 6.1\%$$

$$.0600 = 6.0\%$$



Tax rate components are calculated to four decimal places and are rounded to the next higher 0.1% if the number in the 4th decimal place is any number higher than zero. For example, if the decimal calculation of the CBC was .0601, it would be rounded to 6.1%. If the decimal calculation of the CBC was .0600, it would stay as 6.0%.



Account Building Component

- Unemployment insurance, like any insurance system, uses past experience to try to achieve solvency for the insurance system. In the case of unemployment insurance, the Account Building Component (ABC) serves this purpose by comparing the balance in an employer's individual UIA employer account (actual reserve) with a calculated optimal balance for the employer (required reserve).
- The calculation uses each employer's total payroll for the 12-month period ending the previous June 30th

The Account Building Component, known as the ABC.



Account Building Component

$$ABC = \frac{[(\text{Required Reserve}) - (\text{Actual Reserve})] \times 0.5}{12 \text{ months of total payroll}}$$

Required Reserve = Employers total (gross) payroll for the 12 months ending the previous June 30th multiplied by 3.75%

Actual Reserve = All monies paid in UI taxes since the business began, minus all benefit charges that have been charged since the business began.

The result is rounded up to the next higher one tenth of one percent (0.1%)

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Lets look at the formula: The "Actual Reserve" is subtracted from the "Required Reserve", multiplied by 0.5 and divided by the total (gross) payroll for the computation period ending the previous June 30th.

In other words, it is the "net amount" in an employer's UIA account and may be either positive or negative. If negative, the employer is known as a negative balance employer and generally has a higher tax rate.

The maximum ABC under Michigan law is 3.0% although it may compute higher. This component is rounded to the next higher 0.1% just like the CBC.

The 3.75% is the cost criterion determined by the Agency, in Section 18 (2)(e)(1) of the Act. It is developed by using a ratio of benefits paid during the 12 months to the aggregate amount of payrolls paid by employers within the most recent calendar year completed before the start of the 12-month period.

Nonchargeable Benefits Component

- This component is the only one of the three that does not entirely reflect an employer's own experience.
- This component is generally a flat 1.0% for all fully-experienced employers.
- For employers with no, or very few, benefit charges, the NBC can range from 0.5% to as low as 0.06%.

This is known as the NBC.

For employers who do not have full experience the NBC is 0.0%.

ABC Computation Period

- For the 2012 tax rate, these are the quarters that were used in the computation:

9/30/2010
12/31/2010
3/31/2011
6/30/2011

- For 2011, these are the quarters that were used in the computation:



9/30/2009
12/31/2009
3/31/2010
6/30/2010

Benefits charged today
affect future tax rates!

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The ABC computation period begins July 1st of one year and ends the June 30th of the following year, and uses 4 quarters that make up that period. The financial information that falls in this “period” is used to determine the unemployment tax rate for the next calendar year. If any of these are missing when the next year’s tax rate is determined, you could receive a penalty rate increase.

As you can see, benefit charges that are paid in 2011 do not affect the 2011 tax rate and only affect the 2012 tax rate if they occurred before 6/30/2011.

By keeping track of your payroll, benefit charges, and tax payments for that particular time period, you’ll be able to estimate and budget for upcoming tax rate increases or decreases. This is important to remember, as you review the Summary of Benefit Charges and Credits, Form UIA 1770, that you receive quarterly from UIA. Or you can view the UIA1770 on-line on your EWAM (or MiWAM) account.

Any additional monies received after 06/30/2010 through 07/31/2010 are included in the 2011 tax rate. For 2012, any additional monies received through 7/31/2011 will be included in the calculation of the 2012 tax rate.

Effects of Missing Tax Reports

- If any of the tax reports needed for the computation period are missing (not filed), the employer will receive a computed tax rate plus a 3.0% non-reporting penalty added to their tax rate.
- If none of the required tax reports are filed, the rate will be set at the highest rate applicable for the number of years in business plus a 3.0% non-reporting penalty.
- For fully experienced employers, the rate could be 10.3% plus 3.0% = 13.3%. (or higher due to OA)
- If the missing reports are filed within 30 days of the tax rate determination, the non-reporting penalty is removed.
- Beyond the 30 days but up to one year, the non-reporting penalty can be reduced to 2.0%.



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Missing tax reports can impact your tax rate by adding a 3.0% non-reporting penalty. This provision is described in Section 18(d)(2) of the Michigan Employment Security Act.

However, if the employer can establish good cause for filing late, the 2.0% non-reporting penalty can be removed. Good cause cannot be considered after 1 year has passed. However, if all of the missing tax reports are filed within 3 years of the mail date of the tax rate determination, the tax rate will be redetermined but the 3.0% non-reporting penalty will remain.

Tax Rates for Newly Liable Employers

Before Legislation:

- Year 1 & 2 - 2.7 %
- Year 3 - 1.8% + 1/3 CBC
- Year 4 - 1.0% + 2/3 CBC
- ✓ Year 5 - CBC + ABC + NBC

60 months = Fully experienced

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Tax Rate Tables are found in Section 19(a) of the Michigan Employment Security (MES) Act. **For employers established as liable before 2012**, Year 1 and 2 is a straight 2.7% for the first two years, and after that can go up or down depending on the amount of benefit charges. As we can see here the Chargeable Benefits Component (CBC) kicks in in years 3 and 4 and an employer doesn't become fully liable until Year 5 (60 months) of operation. The other tax rate components (ABC & NBC) don't kick in until the employer becomes "fully liable". If no benefit charges, in Year 3 the rate will go down to 1.8%, and down to 1.0% in Year 4.

The new tax rate formula will begin in 2012 and will be phased in, within the next two years. All employers who became liable prior to 2012 will keep their rate structure and will be using the 60 month calculation, but starting in 2012 these rates are actually higher because of the new Obligation Assessment, which has been added to the tax rate beginning in 2012.

Average Construction Contractor Rate: For this rate to apply you must be involved in certain large-scale construction activities (the construction of state roads, bridges, highways, sewers, water mains, utilities, public buildings, factories, housing developments or similar large scale construction activity). The current 2012 construction rate is 8.9%. The 2013 construction rate will be announced by December 2012 (end of this year).

Tax Rates for Newly Liabile Employers

Rate Year 2012

- Year 1 - 2.7%
- Year 2 -2.7% + 1/3 CBC
- Year 3 -2.7% + 2/3 CBC
- ✓ Year 4 - CBC + ABC+ NBC
(48 months = fully experienced)

Tax Rate Tables A-1 & B-1 provide formulas for employers established as newly liable on or after January 1, 2012, and before January 1, 2013. Beginning in 2012, the first phase-in of the new tax rate will decrease the 5-year (60 months) experience rating period to a 4-year (48 month) period for new employers who become liable in 2012. This is accomplished by having the CBC charges kick in earlier, starting at Year 2 instead of Year 3. Employers who become newly liable in 2012 will be the only employers that have a 48 month rate calculation period. So for a few years there will be different rate scales going on at the same time until all employers become experienced, then there will only be the three-year scale for new employers.

Tax Rates for Newly Liabile Employers

Rate Year 2013 and After

- Year 1 - 2.7% + 1/3 CBC
- Year 2 -2.7% + 2/3 CBC
- ✓ Year 3 - CBC + ABC+ NBC
(36 months = fully experienced)

Tax Rate Tables A-2 & B-2 provide formulas for employers established as newly liable on or after January 1, 2013.

If there are no benefit charges for a newly liable employer, the CBC will not be applied in Year 1 and new employers who begin liability in 2013, will still start off with a 2.7% tax rate. But in Year 2 if there were benefit charges in Year 1 will get 2/3 of those benefit charges applied. They will become fully liable in 36 months, which is the change in the amendment (SB#806). After 2013 all new employers will use this computation.

Tax Rate Comparison Chart

Tax Rate Comparisons 2011- 2013

■ NE 2011 ■ NE 2012 ■ NE 2013



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NE= New Employer

From this chart you can see the different rate scales and how they would converge in 2015. This is assuming no benefit charges and all employers received the lowest tax rate in the “Fully experienced” year.

Form UIA 1771

UIA 1771 (Rev. 01/12)

LICENSING AND REGULATORY AFFAIRS
Unemployment Insurance Agency
3024 W. Grand Blvd., Suite 1100 Detroit, Michigan 48202
Phone: (313) 224-2400

Employer No.:
Date Mailed: 02/21/2012

TAX RATE DETERMINATION FOR CALENDAR YEAR 2012

THIS IS NOT A REQUEST FOR PAYMENT
Your unemployment insurance tax rate, as provided under Sections 16, 22, and 182d of the Michigan Employment Security Act (Act), is shown below as your **COMPUTED RATE**. Your actual rate is determined by the **REPORTING PENALTY** and **ASSESSMENT** and **SUTA RATE PENALTY**, see explanations on back. **SEE IMPORTANT INFORMATION ON THE BACK OF THIS FORM.**

FORMULA FOR EACH COMPONENT	FIGURES BASED ON YOUR EMPLOYER ACCOUNT	RESULT
NONCHARGEABLE BENEFITS COMPONENT (NBC)		
Amounts paid toward the component will not appear in the "Taxes Credited" line of the ABC calculation below.		
CHARGEABLE BENEFITS COMPONENT (CBC)		0.00%
12 months of benefit charges (ending 6/30/2011)	0.00	0.00%
12 months of benefit charges (ending 6/30/2011)	0.00	
ACCOUNT BUILDING COMPONENT (ABC)		
Actual Reserve		
12 months of benefit charges (ending 6/30/2011)	0.00	0.00
12 months of benefit charges (ending 6/30/2011)	0.00	0.00
12 months of benefit charges (ending 6/30/2011)	0.00	0.00
Required Reserve		
12 months of benefit charges (ending 6/30/2011)	0.00	0.00
12 months of benefit charges (ending 6/30/2011)	0.00	0.00
12 months of benefit charges (ending 6/30/2011)	0.00	0.00
ABC Calculation		
12 months of benefit charges (ending 6/30/2011)	0.00	0.00
12 months of benefit charges (ending 6/30/2011)	0.00	0.00
12 months of benefit charges (ending 6/30/2011)	0.00	0.00
Your Computed Rate		
		2.70%
Taxable wage base for the year is: 9,000.00		
Your taxable payroll for 12 months ending 6/30/2011 was: 0.00		
Non-Reporting Penalty is: 0.00%		
Obligation Assessment: 0.66%		
SUTA Rate Penalty: 0.00%		
Solvency Rate: 0.00%		
Total Rate plus Penalty (if applicable): 3.36%		

APPEAL STATEMENT: Any protest or appeal from this determination must be filed with the agency by the 15th day of the 12th month following the month ending 6/30/2011. If a protest is filed, the 15th day of the 12th month following the month ending 6/30/2011 is the deadline for filing a protest. If a protest is not filed, the 15th day of the 12th month following the month ending 6/30/2011 is the deadline for filing a protest.

For details on how this rate was calculated, see Code 3 on reverse side.

012012 012012

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This is the Form UIA 1771 Tax Rate Determination. The different areas on the form represent the ABC, NBC, and CBC. Computed Rate and Total Rate are at bottom. Employers can verify the charges on this form if they have been keeping track of their benefit charges and payroll.

Tax rate determinations are mailed the last business day of December for the following year.

If a tax rate is redetermined, a Redetermination Notice will be sent, and will be retroactive to the first day of the calendar year.

Acquisition of a Business

- If a new or existing business acquires the organization, trade, business or 75% or more of the assets of an existing business, there is a mandatory transfer of unemployment experience account of the predecessor employer. This is termed "successorship."
- If the taxable payroll attributable to the transferred portion of the business is less than 100%, then the transfer of experience is termed a partial transfer.

For additional information, please refer to Section 22(a) of the MES Act.

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The main thing you need to know is that if you acquire an existing business that is liable for unemployment taxes, you will not start off at a 2.7% tax rate, but you will inherit the successor's tax rate, or a portion of the rate. This can be good or bad. If the business acquired has a low tax rate, you may receive that low rate. If they have a high tax rate, you may also receive that rate, or a portion of the rate. It's important to request a clearance of account from the Tax Office when you are purchasing an existing business. The new law under Section 21 (a) also requires that UIA begin sending the benefit notification form to a successor account for predecessor charges. This will allow a successor employer to act more quickly to review any benefit charges and protest if needed.

In total transfers, only one employer (successor) remains active. In a partial transfer, both employers can remain active.



Acquisition of Business with same Controlling Interest

- If an employer transfers its trade or business, in full or in part, to another employer and there is common ownership, management or control of the two employers at the time of the transfer, there is a mandatory transfer of unemployment experience.

You may not have acquired 100% of assets or employees of another business, but when an employer transfers its trade or business, in full or in part, to another employer and there is common ownership, management or control of the two employers at the time of the transfer, this is also considered a mandatory transfer of unemployment experience.

Contact Information

- **Tax Status:** liability, transfer of business
Phone: 313.456.2080
FAX: 313.456.2131
Email: EmployerLiability@michigan.gov
- **Tax Maintenance:** tax rates, missing tax reports
Phone: 313.456.2010
FAX: 313.456.2131
Email: TaxSupport@michigan.gov

Section C of the Employer Handbook also provides a detailed explanation of how to compute your tax rate in easy to understand language. An electronic version of the Employer Handbook is available for free through EWAM or you can purchase a printed copy for \$15 through the Agency.